

Kirin Group

2017 Results & 2018 Plan

February 14, 2018
Kirin Holdings Company, Limited

2017 Results & 2018 Plan

2017 Results: Overview

- Normalized operating profit (OP) increased (+12.3 billion yen) due to increased profits for Japan Integrated Beverages and for Pharmaceuticals and Bio-chemicals
- Profit increased (+93.1 billion yen) due to the impact of the stock transfer of Brasil Kirin, a discontinued operation under the IFRS
- ROE and normalized EPS grew steadily, paving the way to achieve the 2016 MTBP

bn yen	2017 actual	2016 actual	YonY change	
Sales revenue	1,863.7	1,853.9	9.8	0.5%
Normalized operating profit ^{*1}	194.3	182.0	12.3	6.8%
Profit before tax	233.8	208.2	25.6	12.3%
Profit attributable to owners of the parent	242.1	148.9	93.1	62.5%

*1 Normalized operating profit is an additional indicator for understanding of underlying sustainable performance of the Group
 Normalized operating profit=Sales revenue – (Cost of sales + SG&A expenses)

Quantitative targets	2017 actual	2016 actual	YonY change	
ROE ^{*2}	29.1%	22.0%	-	-
Normalized EPS ^{*2}	151 yen	139 yen	12 yen	8.6%

*2 See p.30 for details

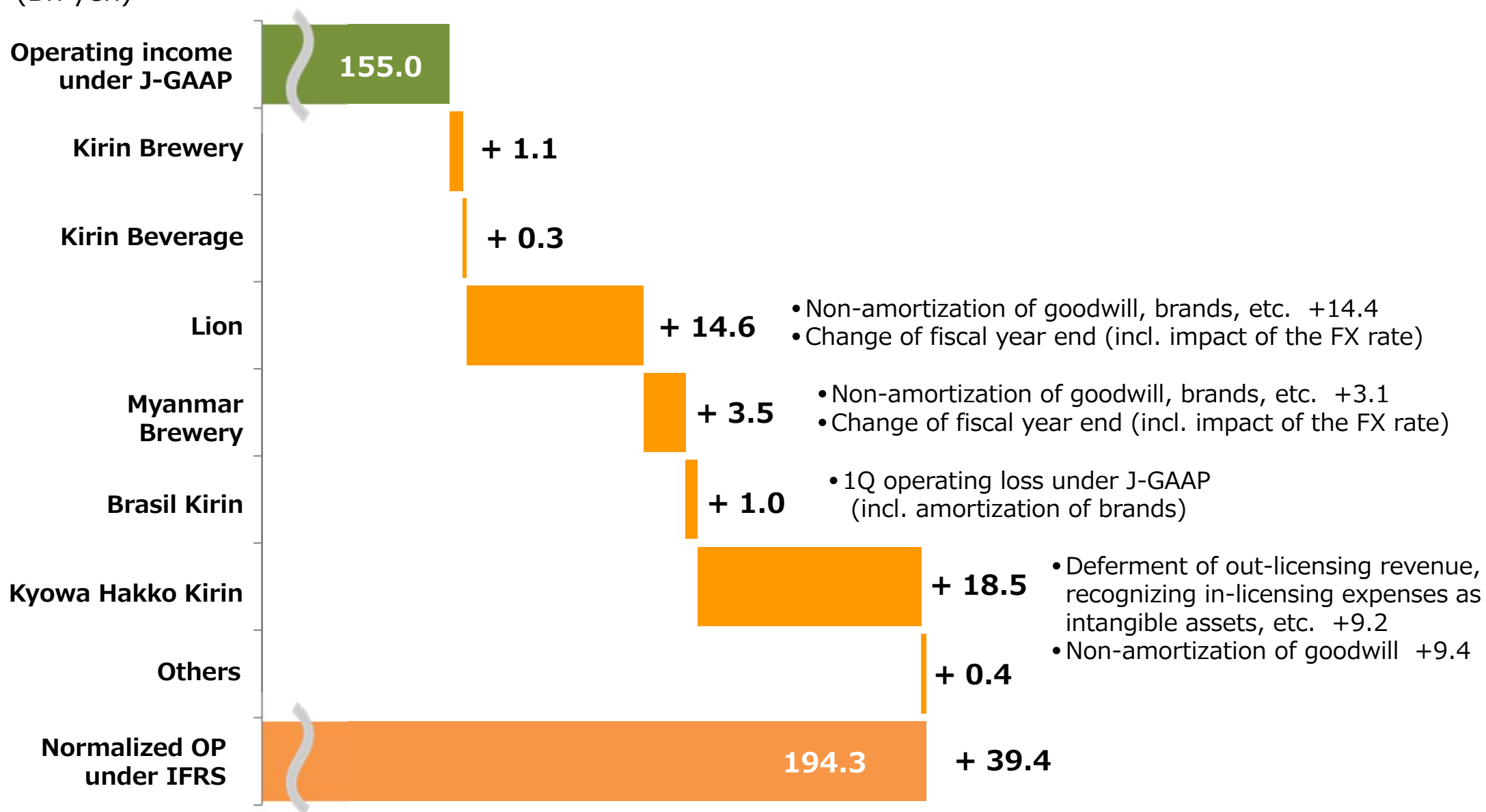
Financial indicator	2017 actual	2016 actual	YonY change	
EPS (yen)	265.24	163.19	102.05	62.5%

2017 Results: Variance between J-GAAP and IFRS

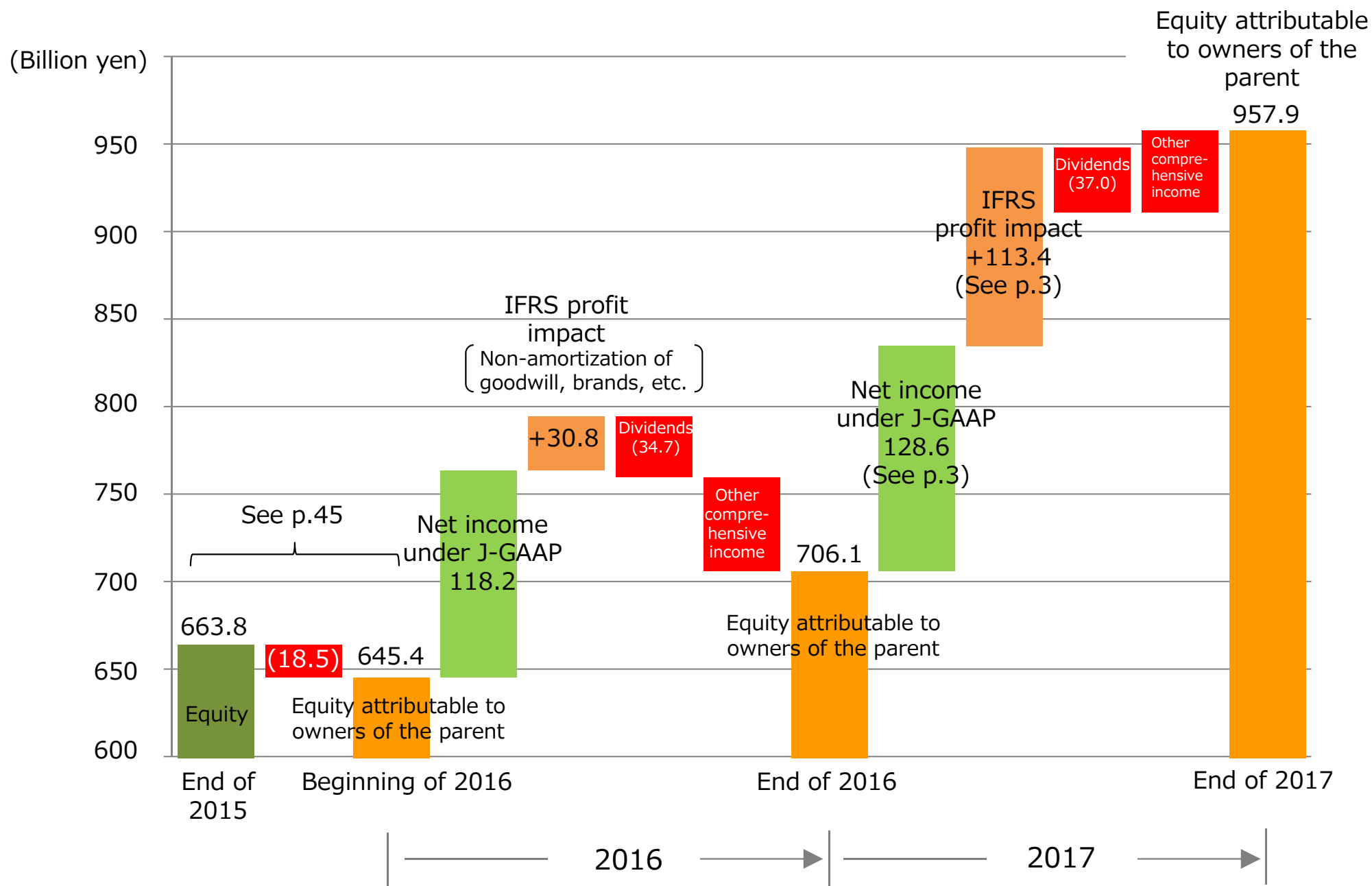
J-GAAP	IFRS	Major items for variance
Sales 1,970.8 <ul style="list-style-type: none"> • Cost of sales • SG&A expenses <ul style="list-style-type: none"> ➢ <u>Partial SG&A expenses</u> 	Sales revenue 1,863.7 <ul style="list-style-type: none"> • <u>(Partial variable sales expenses)</u> • Cost of sales • SG&A expenses 	Between sales and sales revenue (107.1) bn yen <ul style="list-style-type: none"> • Variable sales expenses associated with sales (81.9) • 1Q Brasil Kirin sales (31.6) • Change of fiscal year end (Lion, Myanmar Brewery) + 2.9 • Deferment of out-licensing revenue (Kyowa Hakko Kirin) + 4.3
Operating income 155.0 <ul style="list-style-type: none"> • Non-operating income or expenses <ul style="list-style-type: none"> ➢ Financial profit and loss ➢ Equity in earnings of affiliates ➢ Other non-operating income or expenses • <u>SG&A expenses</u> 	Normalized OP 194.3 <ul style="list-style-type: none"> • <u>Other operating income or expenses</u> • Finance income/finance costs • Share of profit of equity-accounted investees • Gain on sale of equity-accounted investees 	Between operating income and normalized OP +39.4 bn yen <ul style="list-style-type: none"> • Non-amortization of goodwill, brands, etc. + 27.7 • 1Q profit and loss for Brasil Kirin + 0.8 • Change of fiscal year end (Lion, Myanmar Brewery) + 0.5 • Deferment of out-licensing revenue, recognizing in-licensing expenses as intangible assets (Kyowa Hakko Kirin) + 9.2
Income before income taxes 141.0 <ul style="list-style-type: none"> • Income taxes • Net income attributable to non-controlling interests 	Profit before tax 233.8 <ul style="list-style-type: none"> • Income tax expense • Profit from discontinued operations • Profit attributable to non-controlling interests 	Between net income and profit + 113.4 bn yen <ul style="list-style-type: none"> • Impact on normalized operating profit (after adjustment of tax effect and non-controlling interests) + 29.6 • Non-amortization of goodwill, brands, etc. included in share of profit of equity-accounted investees + 10.2 • Kirin-Amgen accounting period difference (1.6) • Brasil Kirin foreign currency translation adjustments + 75.8 <ul style="list-style-type: none"> Impact of resetting foreign currency translation adjustments to zero at the beginning of 2016 based on the exemption for first-time adoption to IFRS
Net income attributable to owners of the parent 128.6	Profit attributable to owners of the parent company 242.1	

(Reference) 2017 Normalized OP: Variance between J-GAAP and IFRS

(Bn yen)



Changes in Equity (equity attributable to owners of the parent)



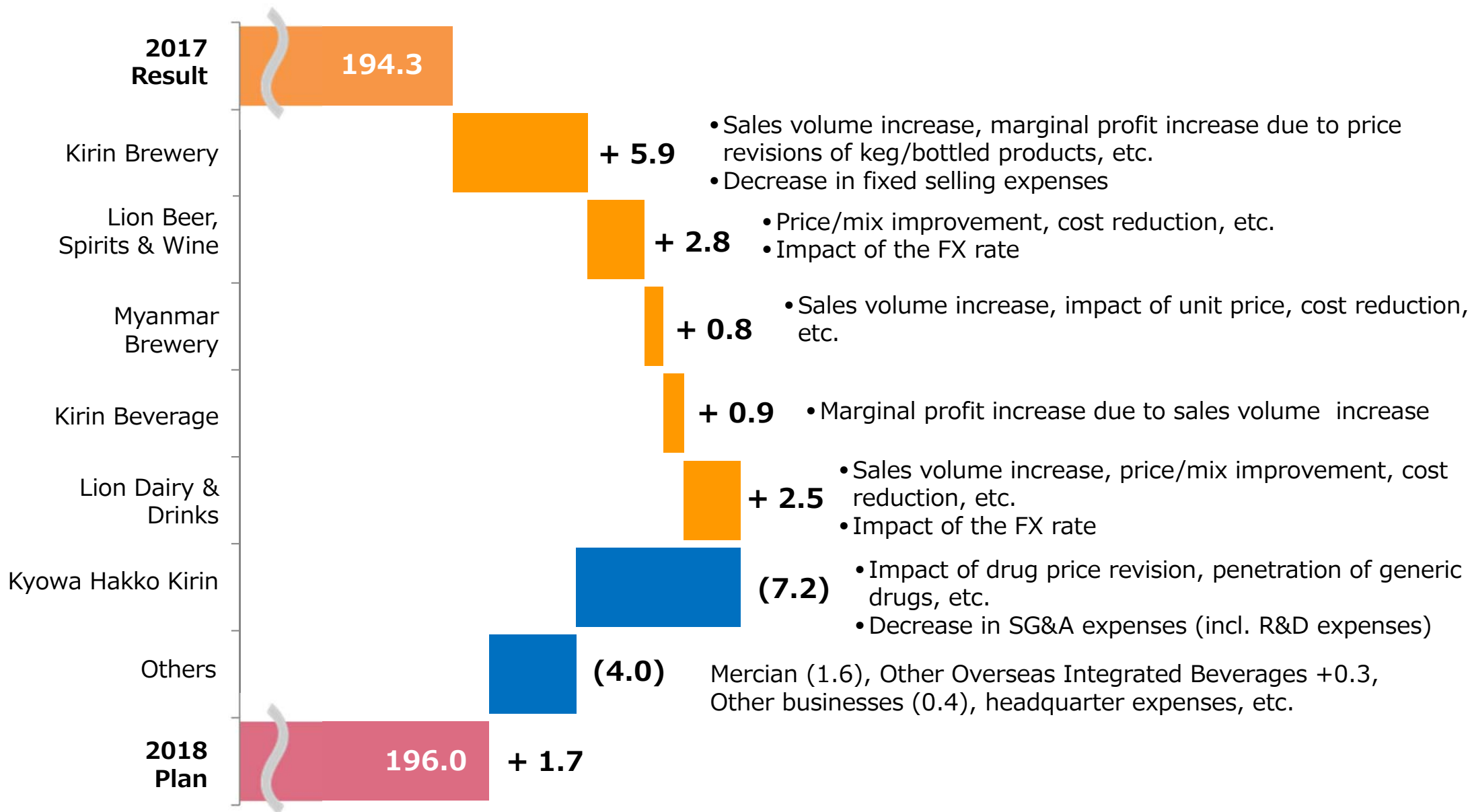
2018 Plan: Overview

- Compensate for an expected profit decrease for Pharmaceuticals and Bio-chemicals by increasing profits for Japan Integrated Beverages and Overseas Integrated Beverages, and aim for normalized OP of 196.0 billion yen (operating income of around 160.0 billion yen under J-GAAP)
- The decrease in profit is anticipated due to such factors as the fallout from the Brasil Kirin share transfer and gain on sale of property, plant and equipment recorded in 2017

bn yen	2018 forecast	2017 actual	YonY change	
Sales revenue	1,960.0	1,863.7	96.3	5.2%
Japan Integrated Beverages	1,080.0	1,051.0	29.0	2.8%
Overseas Integrated Beverages	536.0	448.6	87.4	19.5%
Pharmaceuticals and Bio-chemicals	327.0	346.7	(19.7)	(5.7)%
Normalized operating profit	196.0	194.3	1.7	0.9%
Japan Integrated Beverages	76.0	72.5	3.5	4.8%
Kirin Brewery	77.5	71.6	5.9	8.2%
Kirin Beverage	22.6	21.7	0.9	4.2%
Mercian	2.3	3.9	(1.6)	(41.5)%
Others	(26.4)	(24.7)	(1.7)	-
Overseas Integrated Beverages	70.5	66.0	4.5	6.7%
Lion	55.9	52.6	3.3	6.2%
Myanmar Brewery	10.7	9.9	0.8	8.5%
Others	3.9	3.6	0.3	9.5%
Pharmaceuticals and Bio-chemicals	55.0	62.2	(7.2)	(11.6)%
Profit attributable to owners of the parent	155.0	242.1	(87.1)	(36.0)%

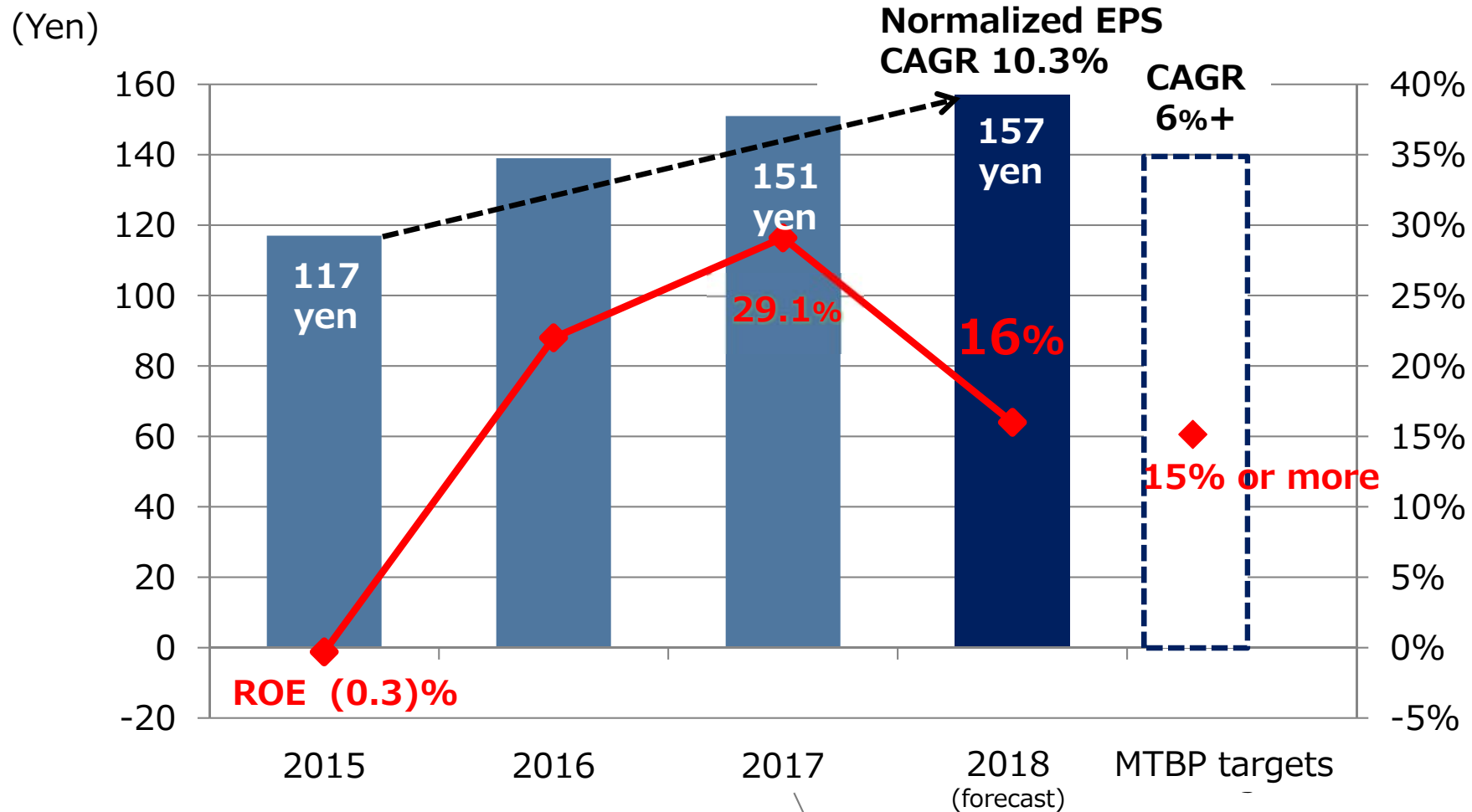
(Reference) 2018 Plan: Changes in Normalized OP

(Billion yen)



2016 MTBP Quantitative Targets

- ROE and normalized EPS set to overachieve 2016 MTBP targets



(Note) 2015: ROE before amortization of goodwill, etc. and normalized EPS based on the J-GAAP.
 After 2016: ROE and normalized EPS based on the IFRS.

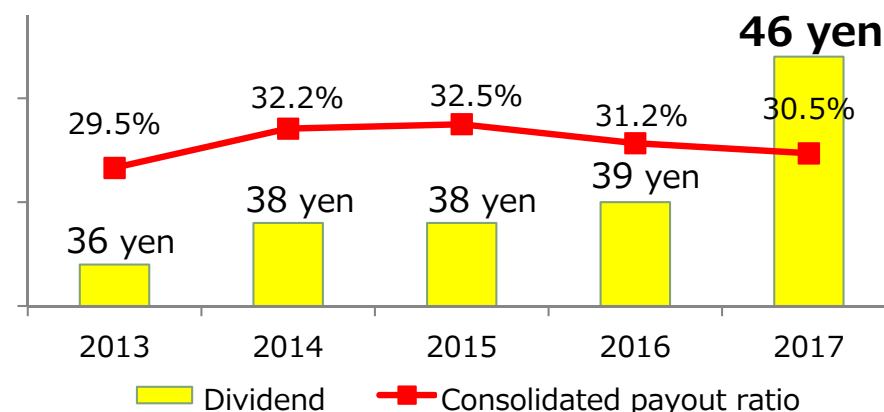
ROE increased due to the sale of Brasil Kirin stocks and gains on sale of property, plant and equipment, etc.

Cash Flow Update

- Over the last 2 years (2016-2017), FCF of 434.5 billion yen was generated, overachieving the MTBP target
- Repayment of interest-bearing debt advanced ahead of schedule; D/E ratio at the end of 2017 was 0.51 (end of 2015: 1.14)
- Annual dividend per share will be 46 yen, an increase of 7 yen

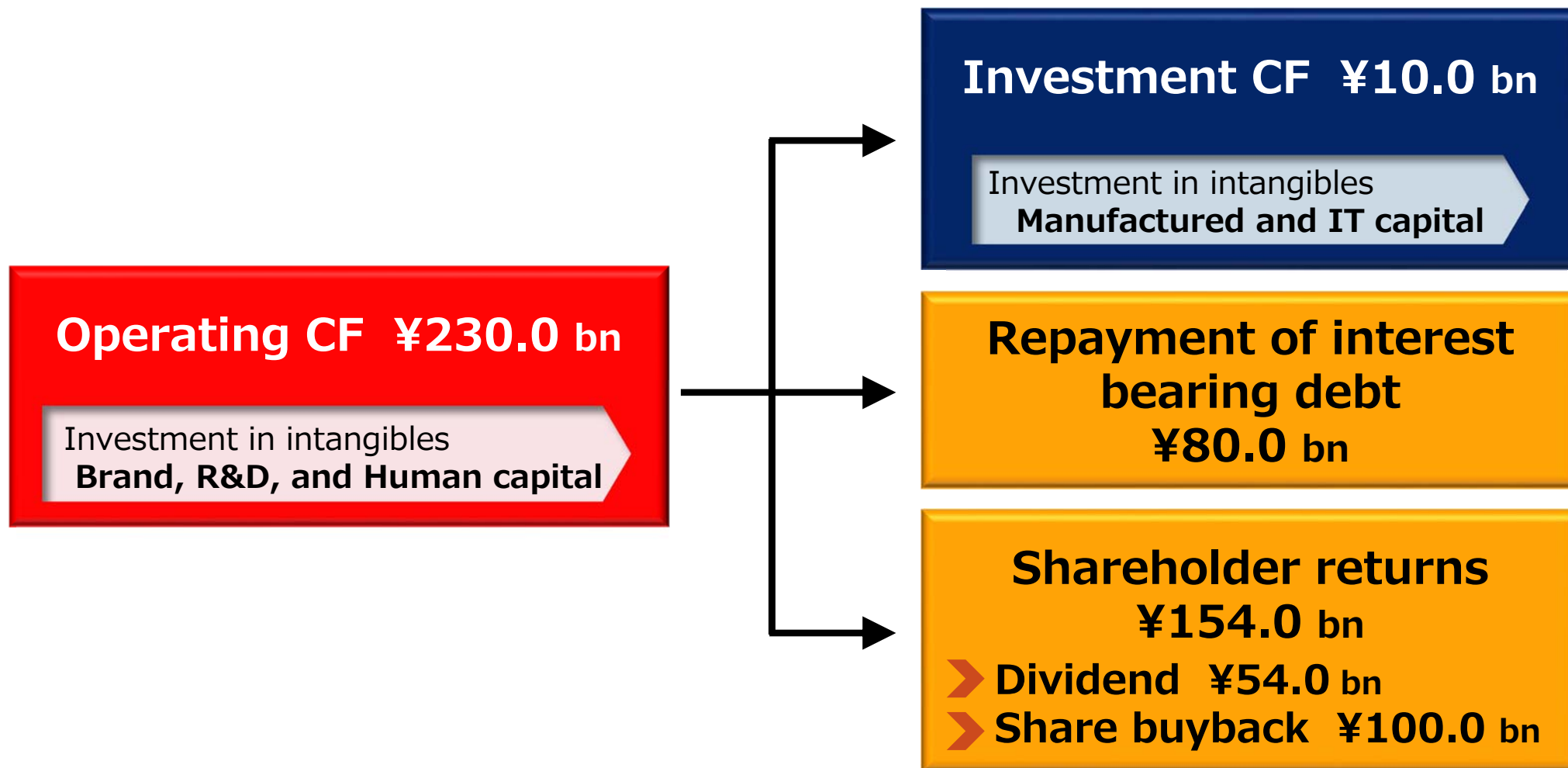


bn yen	2016 actual	2017 actual
Operating CF	232.3	221.7
Investment CF	(82.7)	63.2
Free CF	149.6	284.9
Repayment of interest bearing debt	111.0	147.3
Shareholder returns (divident)	43.2	45.9



2018 Financial Strategy

- In addition to the operating CF 230.0 billion yen, cash inflow from the transfer of shares in Kirin Amgen is expected in 2018
- Investment in intangibles, brand, R&D, human, and Manufactured and IT capital, shall be strengthened, leading to sustainable growth of the Group



2018 Shareholder Returns

- Normalized EPS is expected to increase in 2018 as well; based on consolidated payout ratio 30% or more, the forecast of annual dividend per share is 48 yen, an increase of 2 yen
- Share buyback: additional returns to shareholders

Detail of Share Buyback

1. Reason

To further enhance returns to shareholders

2. Total cost of repurchase

Up to 100,000 million yen

3. Maximum of shares to be repurchased

50,000,000 shares

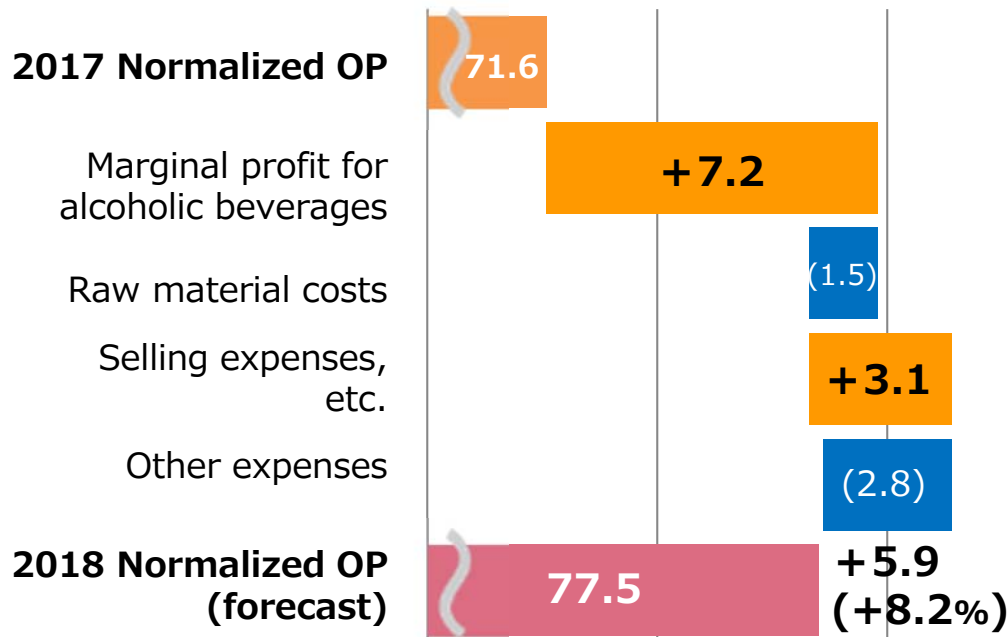
3. Repurchase period

Feb. 15, 2018 – Dec. 28, 2018

2018 Plan Overview: Kirin Brewery

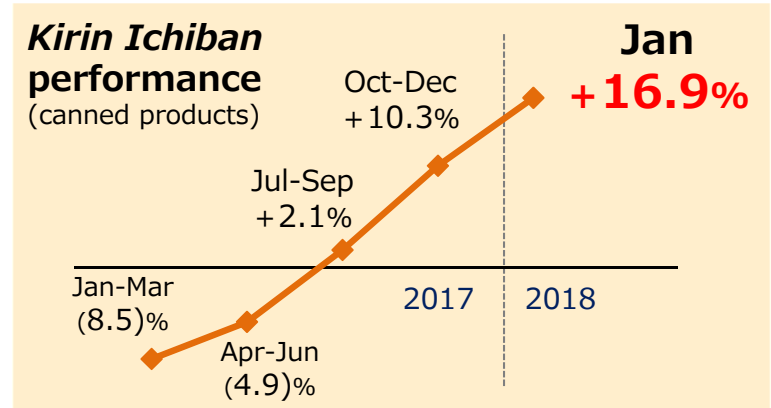
- Narrow down the list of brands to invest in so as to maximize return on investment that will result in an increase in marginal profit and a reduction in selling expenses

(bn yen)



Enhance appeal of beer category

Make Kirin Ichiban
 "the most iconic beer in Japan"



Win back new genre consumers

Address changing consumer needs



Launched in Jan

Nodogoshi
STRONG



Malt-type new genre product

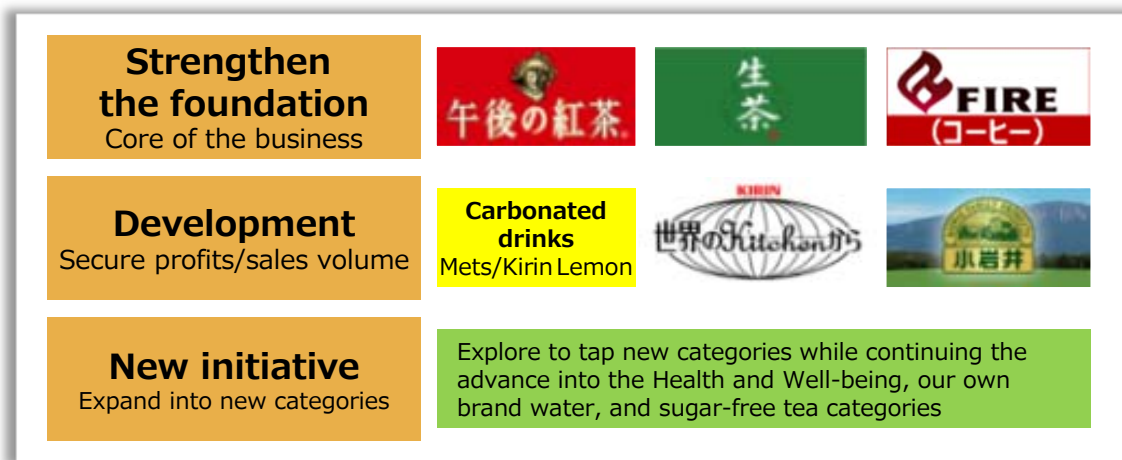
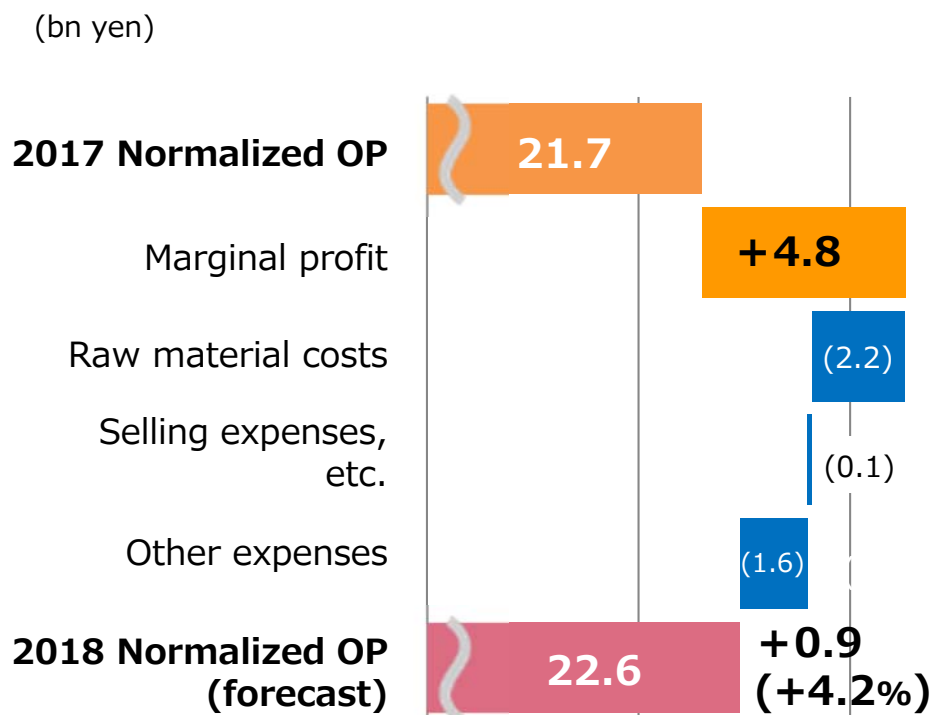
Honkirin

To be launched on 3/13

2018 Plan Overview: Kirin Beverage

- Aim to achieve a marginal profit increase by increasing sales volume of key brands

➤ Building a robust brand portfolio



Percentage of consumers who consider purchasing the *Nama-cha* brand (2017-)



To be renewed on 3/6 for more sophisticated design



Kirin Group Cost-cutting Initiatives

- 2016 MTBP cost-cutting target of 30.0 billion yen achieved in 2 years
- In 2018, a target was set to further achieve the cost reduction of 4.6 billion yen across the Group

(Billion yen)	2016-2017 actual	2018 target	2016-2018 total	Main 2018 initiatives
Kirin Brewery	9.9	1.3	11.2	Supply chain cost reduction (e.g. procurement of raw materials)
Kirin Beverage	7.8	1.3	9.1	Procurement of raw materials, waste reduction, etc.
Other	7.9	2.0	9.9	Mercian, Lion, Myanmar Brewery
Brasil Kirin	8.4	—	8.4	—
Total	34.0	4.6	38.6	

Maximizing Shareholder Value

2016 MTBP Progress and Results

Structural reform of “Low-profit Businesses”

Appropriate response to the “Standard for fair trading of alcoholic beverages”

Liquidation of non-core assets

Results

- Additional returns to shareholders through share buyback by achieving target of FCF generation a year ahead of schedule.
- Record-high profit levels achieved

Outlook for MTBP Guidance Achievement

1. Beer Businesses

- ▶ **Kirin Brewery** FY2018 plan: Normalized OP margin 20%
- ▶ **Lion Beer, Sprints, and Wine**
 - Market position after the loss of ABI brands is No. 2
 - FY2018 plan: Normalized OP margin 28%
- ▶ **Myanmar Brewery**
 - Market share of approx. 80% maintained
 - Improvements to production capacity to be completed before the 2018 peak demand period

MTBP 2018 Guidance

OPM: 17%+

- ❑ Maintain market position
- ❑ Maintain high OPM

- ❑ Maintain market position
- ❑ Capture share of market growth

2. Low-profit Businesses

- ▶ **Brasil Kirin** Transfer of all stocks is complete
- ▶ **Kirin Beverage** Normalized OP margin is 7.6%, significantly above the guidance
- ▶ **Lion Dairy & Drinks** FY2018 plan: Normalized OP margin approx. 5%, excl. impact of external environmental changes

MTBP 2018 Guidance

Pave the way for a positive turnaround in 2019

OPM: 3%+

OPM: 5%+

3. Pharmaceuticals and Bio-chemicals Businesses

- ▶ **Kyowa Hakko Kirin** Good progress achieved in developing global strategic products

MTBP 2020 Guidance

Core operating income: 100 billion yen+

2018 Management Scope

- Continue to work toward achieving 2016 MTBP quantitative targets and profit guidance
- Take initiatives to maximize shareholder value

2018
Take initiatives to
maximize shareholders value

**2016
MTBP** To achieve ROE and EPS targets
by improving profitability
in the core business fields

Value creation beyond
existing business domains

Initiatives to Maximize Shareholder Value

Implement three initiatives to maximize shareholder value based on the foundation built since 2015

1. Profit growth of existing businesses
2. Synergy creation capitalizing on business strengths
3. Financial strategy focusing on cost of equity and non-financial strategy to reduce future risks



Profit Growth of Existing Businesses

For Kirin Brewery's return to growth, increase its profitability to a level comparable to global competitors' in the medium term, while achieving profit growth in Kirin Beverage and Kyowa Hakko Kirin

➤ Further improve profitability

Kirin Brewery

- Turn selling expenses from a "cost" to an "investment"
- Invest aggressively in growing categories

**Lion Beer, Spirits,
and Wine**

- Steadily implement the "Post ABI strategy"

➤ Growth driver of the Group

Myanmar Brewery

- Realize growth by strengthening key brands

Kirin Beverage

- Move from a stage of "profitable growth" to one of "growth-based profit generation"

Kyowa Hakko Kirin

- Achieve outstanding growth to become a global specialty pharmaceutical company (GSP)

Lion Dairy & Drinks will continue the ongoing efforts to improve profitability and continue to accelerate growth in nutritious beverages.

Kirin Brewery

- Due to the “Standard for fair trading of alcoholic beverages” enforced in 2017 and the companies’ response to it, i.e., reviewing the trading conditions for beer products, etc., the focus of competition is undergoing a shift from “pricing” to “brand”
- The company will survive brand competition via a paradigm shift to view selling expenses as an “investment” rather than just a “cost”, and increase its profitability

~2016

2017

2018~

**Address common
social issues**

Appropriate response to the
“Standard for fair trading of
alcoholic beverages”

Shift in focus of
competition from
“pricing” to “brand”:
Reform marketing
from the viewpoint of
brand investment

*Kirin Ichiban
manufactured
at 9 plants*

Products manufactured in
consultation with local
stakeholders: Roll out of “47
Todofuken-no-Ichiban Shibori”

Strengthening ties
with local
communities via the
Kirin Ichiban project

Kirin Brewery: Marketing Reform — Customer-centered Marketing —

- Further narrow down the list of brands to invest in so as to focus on developing the brands with a long-term customer engagement
- Maximize return on investment by effective sales promotion aimed at off-premise channels and branding in on-premise channels, etc.



Kirin Brewery: Aggressive Investment in Growing Categories

- Expand the craft beer market by investing aggressively and establish a new option for beer selection that is not price dependent
- Increase the number of production sites for products in the growing RTD category to address the increasing demand

Craft beer

Drive expansion of craft beer market in the on-premise channels via nationwide rollout of Tap Marché

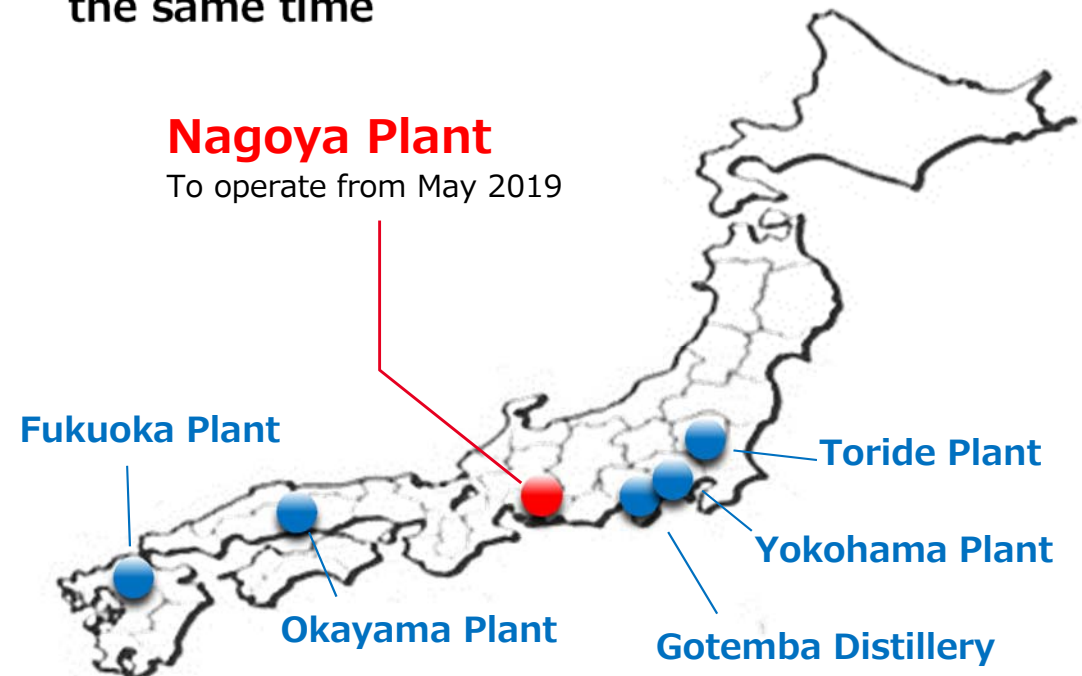
Tap Marché



Target: to expand the number of bars and restaurants where the Tap Marché beer server is installed to 6,000 in 2018

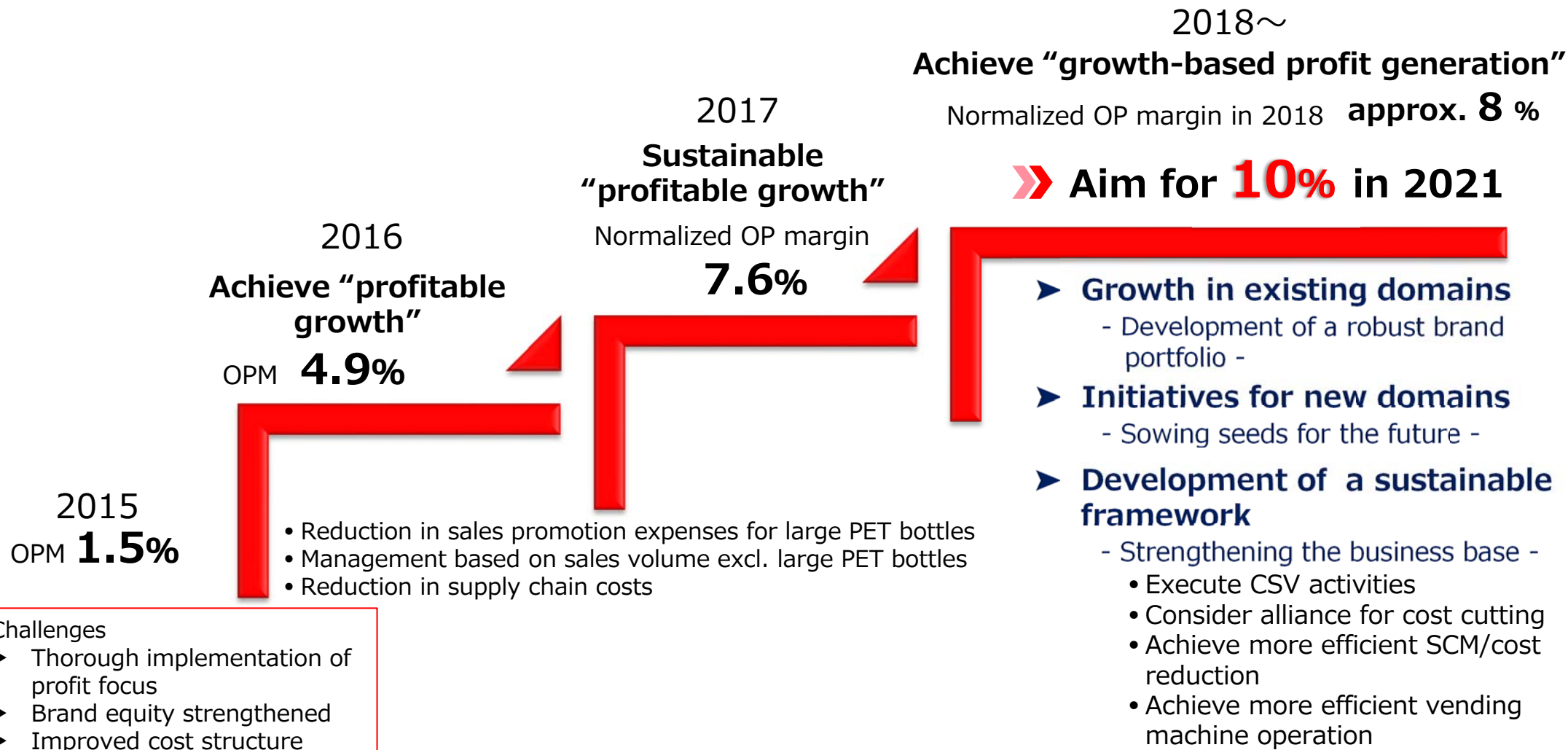
RTD

The addition of a new production facility will take the number of sites in operation to 6; the aim is to increase logistical efficiency at the same time



Kirin Beverage

Steadily address challenges to move to a stage of “Growth-based profit generation”



Challenges

- ▶ Thorough implementation of profit focus
- ▶ Brand equity strengthened
- ▶ Improved cost structure

Kyowa Hakko Kirin

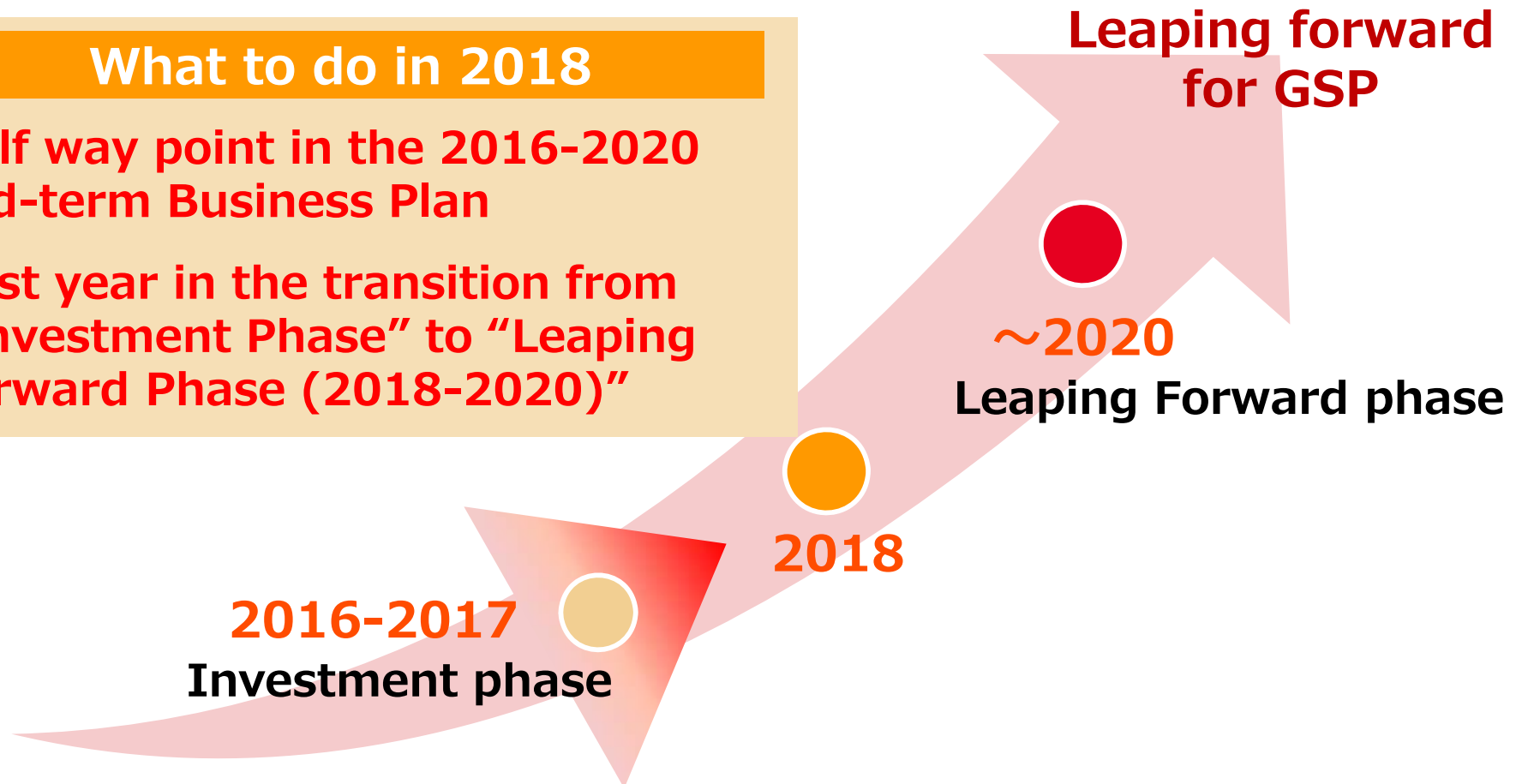
Steadily prepare for launch of global strategic products
to achieve the outstanding growth
needed to become a **GSP*** based on the 5-year MTBP

*Global specialty pharmaceutical company

What to do in 2018

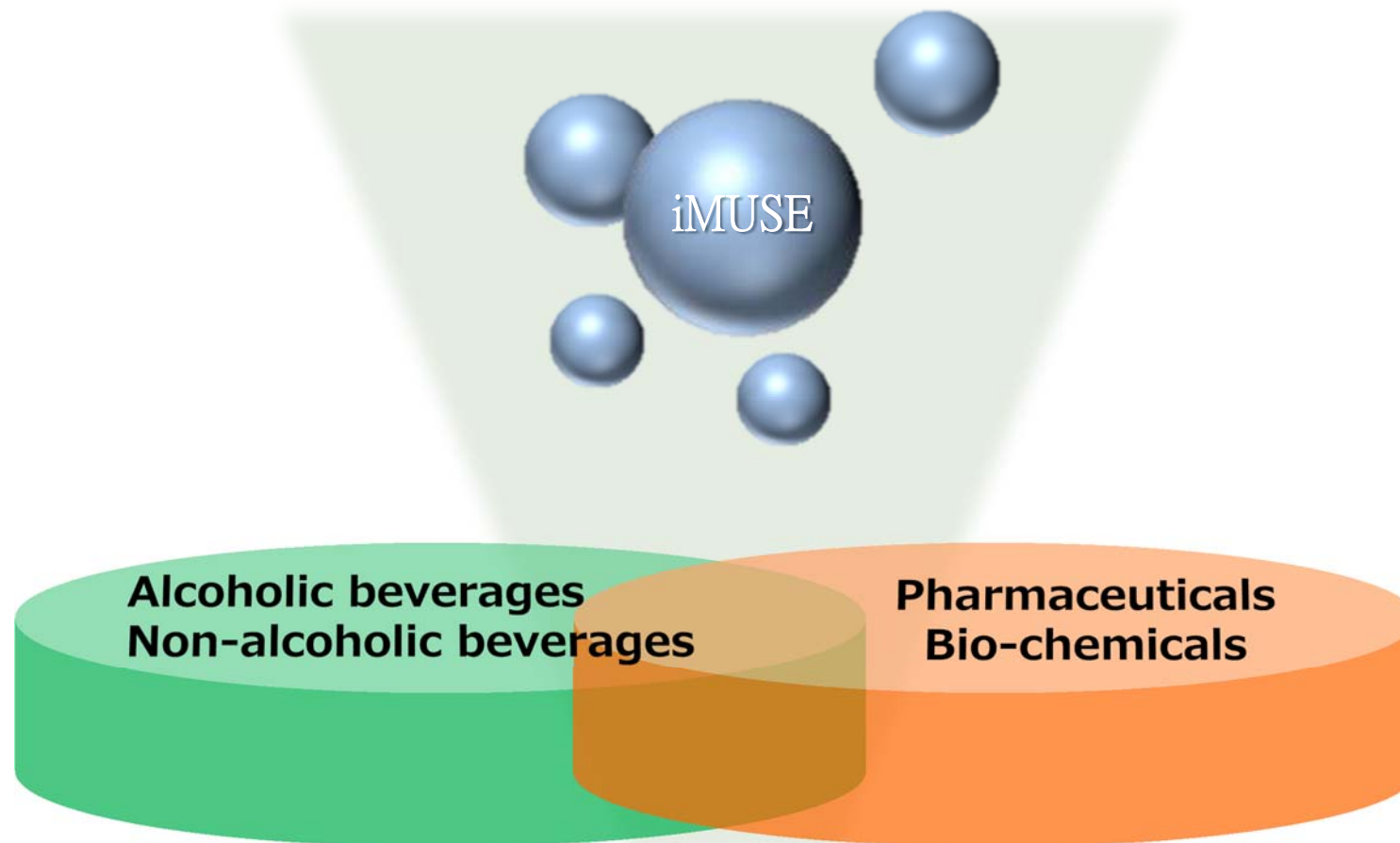
Half way point in the 2016-2020
Mid-term Business Plan

First year in the transition from
“Investment Phase” to “Leaping
Forward Phase (2018-2020)”



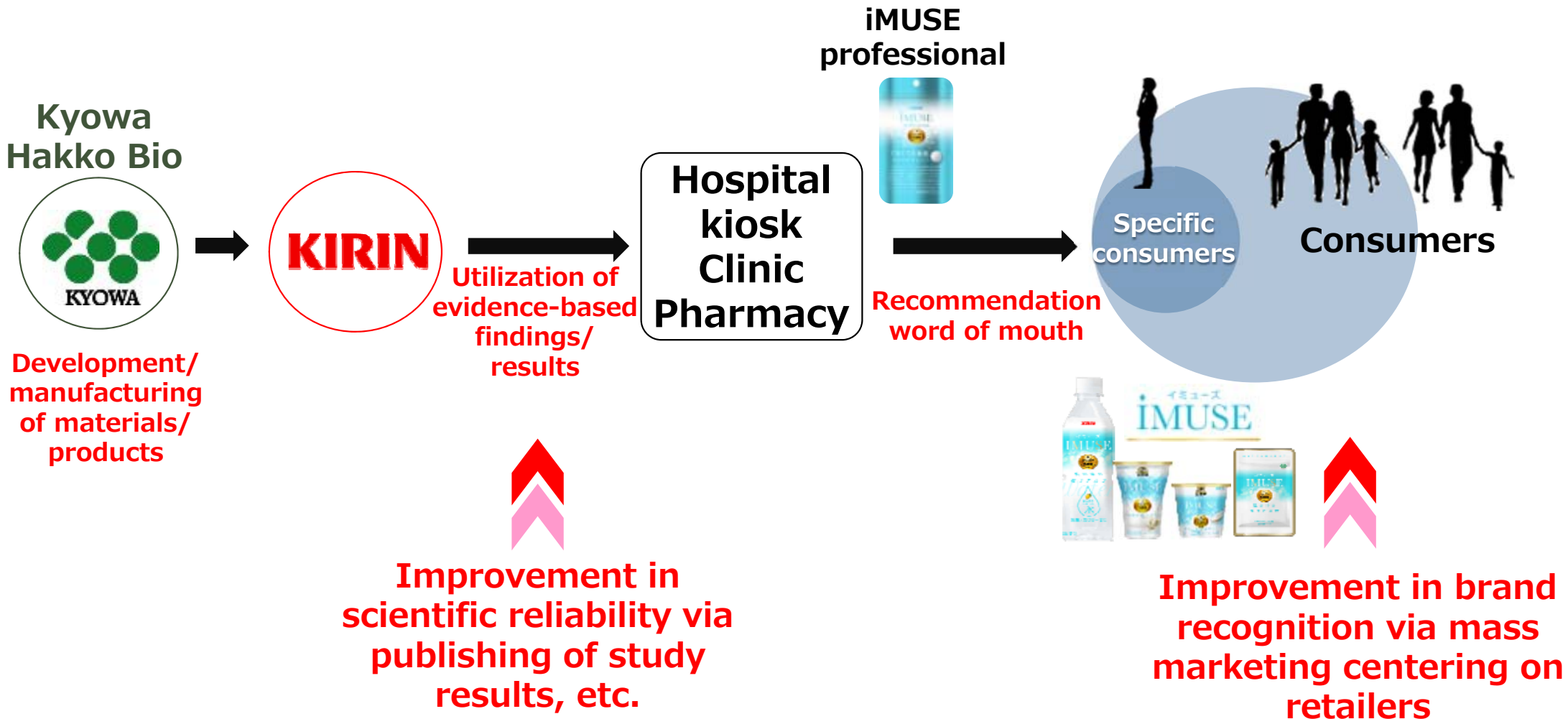
Synergy Creation Capitalizing on Business Strengths

Through a unique business portfolio centered on alcoholic beverages/non-alcoholic beverages and pharmaceuticals/bio-chemicals, see “health and well-being” as one of the social issues that Kirin can solve through business



Synergy Creation Capitalizing on Business Strength

Utilize the R&D capability and insights from each business where they overlap to generate/foster a growth driver from the long term perspective



For Maximizing Shareholder Value

- Place top priority on profit growth of the existing businesses**
- This will increase the Kirin Group's capacity to generate cash and then aim for balance sheet management focusing on cost of capital**
- In the course of executing our CSV Commitment, generate business opportunities through involvement in social issues, thereby increasing sustainability at the same time**

Appendices

Details of the ROE and normalized EPS

■ ROE

	2018 forecast	2017 actual	2015 actual
ROE (%)	16.0	29.1	(0.3)
Margin of profit attributable to owners of the parent (%)	7.9	13.0	(0.1)
Asset turnover ratio	0.82	0.77	0.85
Financial leverage	2.5	2.9	3.1

(Note) 2015: ROE before amortization of goodwill, etc. under J-GAAP (Margin of profit before amortization of goodwill, etc.)

■ Normalized EPS

bn yen	2018 forecast	2017 actual	2015 actual
profit/Loss attributable to owners of the parent	155.0	242.1	(47.3)
Profit from discontinued operations (2015: Amortization of goodwill, etc.)	-	85.0	44.7
Other operating income/expenses after taxes and other adjustments	(14.7)	(19.4)	109.6
Normalized profit	140.3	137.7	107.0
Normalized EPS (yen)	157	151	117

(Note) 2015 Normalized profit: Profit + Amortization of goodwill, etc. ± Extraordinary gains/losses after income taxes, etc.

2017 Actual Results by Segment

bn yen	2017 actual	2016 actual	YomY change	
				%
Sales revenue	1,863.7	1,853.9	9.8	0.5%
Japan Integrated Beverages	1,051.0	1,061.6	(10.6)	(1.0)%
Overseas Integrated Beverages	448.6	428.5	20.1	4.7%
Pharmaceuticals and Bio-chemicals	346.7	341.4	5.3	1.5%
Others	17.5	22.4	(4.9)	(22.1)%
Normalized operating profit	194.3	182.0	12.3	6.8%
Japan Integrated Beverages	72.5	67.8	4.7	6.9%
Overseas Integrated Beverages	66.0	66.4	(0.3)	(0.5)%
Pharmaceuticals and Bio-chemicals	62.2	51.5	10.7	20.9%
Others	0.9	3.2	(2.3)	(72.8)%
Corporate expenses and elimination	(7.3)	(6.9)	(0.4)	
Profit attributable to owners of the parent	242.1	148.9	93.1	62.5%

Sales Revenue

- Sales revenue for Japan Integrated Beverages decreased due to decreased sales volumes for Kirin Brewery and Kirin Beverage, while sales revenue increased for Overseas Integrated Beverages and Pharmaceuticals and Bio-chemicals; as a result, overall sales revenue reached the same level as the previous year
- Impact of the FX rate on consolidation of the Overseas Integrated Beverages: +¥20.1 bn

Normalized OP

- Normalized OP increased by 12.3 billion yen as a whole. This was due to the Kirin Beverage profit increase resulting from product mix improvement and cost reductions, and to the Kyowa Hakko Kirin profit increase from higher licensing revenue and a decrease in SG&A expenses including R&D costs, etc.
- Impact of the FX rate on consolidation of the Overseas Integrated Beverages: +¥2.5 bn

Profit

- Profit increased significantly by 93.1 billion yen/62.5% due to gains on the sale of property, plant and equipment and improvement in share of profit of equity-accounted investees (i.e. strong performance of San Miguel Brewery, etc.), capital gains and tax effect following Brasil Kirin stock transfer, etc.

2017 Actual Results: Integrated Beverages

bn yen	2017 actual	2016 actual	YonY change	
Japan: Sales revenue	1,051.0	1,061.6	(10.6)	(1.0)%
Kirin Brewery	647.0	655.5	(8.4)	(1.3)%
Kirin Beverage	285.7	292.5	(6.8)	(2.3)%
Mercian	65.3	66.4	(1.1)	(1.7)%
Others and elimination	53.0	47.2	5.7	12.1%
Japan: Normalized OP	72.5	67.8	4.7	6.9%
Kirin Brewery	71.6	70.8	0.8	1.1%
Kirin Beverage	21.7	17.3	4.4	25.1%
Mercian	3.9	3.6	0.3	9.0%
Others	(24.7)	(24.0)	(0.8)	-
Overseas: Sales revenue	448.6	428.5	20.1	4.7%
Lion	348.7	357.6	(8.9)	(2.5)%
Myanmar Brewery	25.6	22.6	3.0	13.1%
Others and elimination	74.3	48.2	26.1	54.1%
Overseas: Normalized OP	66.0	66.4	(0.3)	(0.5)%
Lion	52.6	52.8	(0.2)	(0.3)%
Myanmar Brewery	9.9	8.9	0.9	10.3%
Others	3.6	4.7	(1.1)	(23.9)%

2018 Plan: Integrated Beverages

bn yen	2018 forecast	2017 actual	YoY change	
Japan: Sales revenue	1,080.0	1,051.0	29.0	2.8%
Kirin Brewery	662.3	647.0	15.2	2.4%
Kirin Beverage	295.5	285.7	9.8	3.4%
Mercian	64.8	65.3	(0.5)	(0.7)%
Others and elimination	57.5	53.0	4.5	8.5%
Japan: Normalized OP	76.0	72.5	3.5	4.8%
Kirin Brewery	77.5	71.6	5.9	8.2%
Kirin Beverage	22.6	21.7	0.9	4.2%
Mercian	2.3	3.9	(1.6)	(41.5)%
Others	(26.4)	(24.7)	(1.7)	-
Overseas: Sales revenue	536.0	448.6	87.4	19.5%
Lion	370.0	348.7	21.3	6.1%
Myanmar Brewery	28.5	25.6	2.9	11.3%
Others and elimination	137.5	74.3	63.2	85.0%
Overseas: Normalized OP	70.5	66.0	4.5	6.7%
Lion	55.9	52.6	3.3	6.2%
Myanmar Brewery	10.7	9.9	0.8	8.5%
Others	3.9	3.6	0.3	9.5%

2017 Actual Results of Japan Integrated Beverages : Kirin Brewery

		2017 actual	2016 actual	YoY change
Sales volumes (1,000KL)	Beer	627	649	(3.3)%
	<i>Happo-shu</i>	455	471	(3.3)%
	New genre	543	578	(6.0)%
	Beer products total	1,626	1,698	(4.2)%
	RTD	318	293	8.4%
	Non-alcohol	42	26	58.7%

Sales revenue (bn yen)	647.0	655.5	(1.3)%
Sales revenue excl. liquor tax (bn yen)	372.1	373.1	(0.3)%

2016 Normalized OP		70.8	Description
YoY change (bn yen)	Increase in marginal profit of alcohol beverages, etc.	0.6	<ul style="list-style-type: none"> Total beer products (7.7) bn yen; sales decrease in beer (22,000) KL; sales decrease in <i>happo-shu</i> (15,000) KL; sales decrease in new genre (35,000) KL Total other than beer products 5.0 bn yen; sales increase in RTD 25,000 KL; sales increase in non-alcohol beverages 15,000 KL Difference of change in composite of products, etc. 3.3 bn yen
	Decrease in raw material costs, etc.	2.6	
	Increase in selling expenses, etc.	(0.8)	Decrease in sales promotion expenses 2.4 bn yen; Increase in advertising expenses (2.0) bn yen (Total: 67.2→66.9 bn yen), etc.
	Increase in other expenses	(1.6)	Increase in depreciation, etc.
Total		0.8	
2017 Normalized OP		71.6	

Overall beer market

With sluggish consumer spending, overall market demand shrank by 2.6% (based on taxable shipping volume). Reasons include the retail price increase following revisions to the Liquor Tax Act etc., enforced in June and unusual summer/autumn weather in September, etc.

Kirin Brewery sales volume

- Beer products decreased by 4.2%, approx. 72,000 kl, due to the sluggish market, as well as to the impact of the retail price gap between Kirin and competitors after Kirin revised its voluntary guidelines in Jan, etc.
- RTD performance remained strong with an increase of 8.4%, approx. 25,000 kl, and the non-alcoholic category increased by 58.7%, approx. 15,000 kl
- *Kirin Ichiban* brand decreased by 2.4%, approx. the same as the market decrease; however, its canned products increased by 0.6% following intensive brand renewal activities in Sep
- *Tanrei* and *Nodogoshi* decreased by 3.2% and 4.9%, respectively
- RTD: *Hyoketsu* and *Honshibori* increased by 11.0% and 14.0%, respectively
- Non-alcohol beer-taste beverage launched in Apr, *Zero ICHI*, recorded sales of approx. 28,000 kl (target revised upwards twice although the second time, the revised target was not achieved)

2018 Plan of Japan Integrated Beverages : Kirin Brewery

		2018 forecast	2017 actual	YonY change
Sales volumes (1,000KL)	Beer	610	627	(2.8)%
	<i>Happo-shu</i>	448	455	(1.7)%
	New genre	573	543	5.3%
	Beer products total	1,630	1,626	0.2%
	RTD	360	318	13.3%
	Non-alcohol	50	42	20.1%
Sales revenue (bn yen)		662.3	647.0	2.4%
Sales revenue excl. liquor tax (bn yen)		384.6	372.1	3.4%

2017 Normalized OP		71.6	Description
YonY change (bn yen)	Increase in marginal profit of alcohol beverages, etc.	7.2	<ul style="list-style-type: none"> • Total beer products 0.2 bn yen; sales decrease in beer (17,000) KL; sales decrease in happo-shu (8,000) KL; sales increase in new genre 29,000 KL • Total other than beer products 4.4 bn yen; sales increase in RTD 42,000 KL; sales increase in non-alcohol beverages 8,000 KL • Difference of change in composite of products, etc. 2.6 bn yen
	Increase in raw material costs, etc.	(1.5)	
	Decrease in selling expenses	3.1	Decrease in sales promotion expenses and advertising expenses (Total: 66.9→63.8 bn yen), etc.
	Increase in other expenses	(2.8)	Increase in depreciation expenses; Increase in consumables expenses; Increase in electricity/fuel expenses, etc.
Total		5.9	
2018 Normalized OP		77.5	

Overall beer market

A decline of around 3% is forecast due to the downward trend of the overall market and the ongoing negative impact of the June 2017 retail price increase

Kirin Brewery sales volume

Beer: A decline of 4.7% is forecast for the *Kirin Ichiban* brand as a whole, but a year-on-year increase is projected for the canned product following its strong performance in 2017

New genre: The goal is an overall increase of 5.3% to be achieved by boosting the *Nodogoshi* brand, by a new product *Nodogoshi Strong* (with an alcohol percentage of 7%), and the launch of a new malt-type product *Honkirin*, etc.

RTD: An increase of 13.3% is projected via continuously strengthening its position in the higher-alcohol percentage products while further strengthening *Hyoketsu* and *Honshibori* brands

Non-alcohol products: An overall increase of 20.1% is predicted through obtaining new users, including a renewal of *Zero ICHI* to encourage consumers to try the product

2017 Actual Results of Japan Integrated Beverages : Kirin Beverage

Sales volume (mil cases)		2017 actual	2016 actual	YoY change
Category	Black tea	5,293	5,265	0.5%
	Japanese tea	3,086	2,877	7.2%
	Coffee	3,080	3,235	(4.8)%
	Fruit and vegetable juice	2,471	2,732	(9.5)%
	Carbonated beverages	2,110	2,313	(8.8)%
	Functional beverages	1,004	903	11.3%
	Water	4,041	4,169	(3.1)%
	Others	1,741	1,838*	(5.3)%
Container type	Can	3,939	4,170	(5.5)%
	Large PET bottle	7,589	7,617	(0.4)%
	Small PET bottle	9,199	9,320	(1.3)%
	Others	2,099	2,225*	(5.6)%
Total		22,826	23,332	(2.2)%
Sales revenue (bn yen)		285.7	292.5	(2.3)%

Overall soft drinks market

Appears to be ±0% from the previous year

Kirin Beverage sales volume

Soft drinks total declined by 2%

Focus brands/categories:

- *Gogo-no-Kocha* recorded +2%, attaining a new sales volume record
- *Nama-cha* recorded +5% including the effect of the 2016 renewal, while *FIRE* decreased by 8%
- Functional beverages category grew by 11% due to the strong performance of the *Supli* brand

Packaging:

- Canned and small PET bottles declined by 2%

Channels:

- Retailers: *Nama-cha*, *Gogo-no-Kocha*, and *FIRE* increased but *Alkali Ion Water* decreased
- CVS: *Gogo-no-Kocha* and *Nama-cha* increased but *FIRE*, etc. decreased
- Vending machine: Sales volume decreased slightly due to decrease for *FIRE*, etc. despite increase for *Mets*

2016 Normalized OP		17.3	Description
YoY change (bn yen)	Increase in marginal profit	0.6	• Decrease in sales volume (5.06) million cases, (2.4) bn yen • Difference of change in products mix and in composition ratio of containers, etc. 3.0 bn yen
	Decrease in raw material costs, etc.	2.8	Increase in raw material cost (0.3)bn yen; Decrease in packaging cost 1.8 bn yen; Decrease in processing cost 1.3 bn yen
	Increase in selling expenses	(0.0)	Decrease in sales promotion expenses 1.8 bn yen; Increase in advertising expenses (1.8) bn yen (Total: 40.2→40.2 bn yen)
	Decrease in other expenses	1.0	Decrease in labor cost, etc
Total		4.4	
2017 Normalized OP		21.7	

2018 Plan of Japan Integrated Beverages : Kirin Beverage

Sales volume (mil cases)		2018 forecast	2017 actual	YoY change
Category	Black tea	5,380	5,293	1.6%
	Japanese tea	3,370	3,086	9.2%
	Coffee	3,237	3,080	5.1%
	Fruit and vegetable juice	2,597	2,471	5.1%
	Carbonated beverages	2,118	2,110	0.4%
	Functional beverages	1,225	1,004	22.0%
	Water	4,134	4,041	2.3%
	Others	1,539	1,741	(11.6)%
Container type	Can	4,138	3,939	5.0%
	Large PET bottle	7,640	7,589	0.7%
	Small PET bottle	9,537	9,199	3.7%
	Others	2,285	2,099	8.9%
Total		23,600	22,826	3.4%

Sales revenue (bn yen)	295.5	285.7	3.4%
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2017 Normalized OP		21.7	Description
YoY change (bn yen)	Increase in marginal profit	4.8	• Increase in sales volume 7.74 million cases, 3.8 bn yen • Difference of change in products mix and in composition ratio of containers, etc. 1.0 bn yen
	Increase in row material costs, etc.	(2.2)	Increase in raw material cost (0.4)bn yen; Increase in packaging cost (1.5)bn yen; Increase in processing cost (0.3)bn yen
	Increase in selling expenses	(0.1)	Increase in sales promotion expenses and advertising expenses (Total: 40.2→40.3 bn yen), etc.
	Increase in other expenses	(1.6)	Increase in depreciation of sales equipment, etc.
Total		0.9	
2018 Normalized OP		22.6	

Overall soft drinks market

The market is projected to be around the same as 2017 ($\pm 0\%$)

Kirin Beverage sales volume

Core brands in the black tea, green tea, and coffee categories will be strengthened. At the same time, on top of the health, Japanese domestic water, and sugar-free tea categories, the challenge will be taken up in other categories to achieve a year-on-year increase of 3%

Categories:

- The target increase is 2% for *Gogo-no-Kocha*, 9% for *Nama-cha*, and 5% for *FIRE*

Packaging:

- Sales volume increase of 4% is intended for canned and small PET bottles centering on core brands
- Increase of 1% is forecast for large PET bottles

2017 Actual results of Overseas Integrated Beverages: Lion

	Yen base (bn yen)				A\$ base (million A\$)			
	2017 actual	2016 actual	YoY change		2017 actual	2016 actual	YoY change	
Sales revenue	348.7	357.6	(8.9)	(2.5)%	4,044	4,406	(362)	(8.2)%
Beer, Spirits, and Wine	195.3	210.4	(15.1)	(7.2)%	2,265	2,592	(327)	(12.6)%
Dairy & Drinks	153.4	147.2	6.1	4.2%	1,779	1,814	(35)	(1.9)%
Normalized operating profit	52.6	52.8	(0.2)	(0.3)%	609	650	(41)	(6.3)%
Beer, Spirits, and Wine	54.5	55.4	(0.9)	(1.6)%	632	683	(51)	(7.5)%
Dairy & Drinks	5.4	5.0	0.5	9.1%	62	61	1	2.3%
Corporate	(7.3)	(7.6)	0.3	-	(85)	(94)	9	-

Consolidation period : January to December 2017

Currency Rate : [Sales revenue] ¥ 86.23 (previous year: ¥ 81.17), [Normalized OP] ¥ 86.33 (previous year: ¥ 81.17)

	Beer, Spirits and Wine	Dairy & Drinks	
Changes in sales volume	(10.5)%	(3.0)%	
Changes in normalized OP (A\$ m)	2016	683	61
	Sales volume change	(122)	(22)
	Other	71	23
2017	632	62	

Sales revenue	<p><u>Beer, Spirits, and Wine</u>: Sales revenue decreased due to lower sales volume in Australia driven by the impact of the ABI-licensed brand loss and Fine Wine Partners (FWP) divestment. The underlying Sales revenue (excluding the impact of the ABI brand loss and FWP divestment) was in line with the prior year. Impact of FX rate on consolidation: +¥11.5 bn</p> <p><u>Dairy & Drinks</u>: Despite the strong sales in full force categories, overall sales decreased due to lower sales volume in the juice category, impacted by an increase in raw material prices resulting from the supply shortage of Australian oranges and increased commodity prices for orange juice concentrate. Impact of FX rate on consolidation: +¥9.0 bn</p>
	<p><u>Beer, Spirits, and Wine</u>: Normalized operating income decreased mainly due to lower sales volume in Australia. Underlying Normalized operating income (excluding the impact of the ABI brand loss) was in line with the prior year. Impact of FX rate on consolidation: +¥3.2 bn</p> <p><u>Dairy & Drinks</u>: Normalized operating income was in line with the previous year due to the loss recognized in 2016 on inventory revaluation reflecting lower milk prices, offset by an increase in raw material prices due to the supply shortage of Australian oranges and increased commodity prices for orange juice concentrate. Impact of FX rate on consolidation: +¥0.3 bn</p>
Normalized OP	

2018 Plan of Overseas Integrated Beverages: Lion

	Yen base (bn yen)				A\$ base (million A\$)			
	2018 forecast	2017 actual	YoY change		2018 forecast	2017 actual	YoY change	
Sales revenue	370.0	348.7	21.3	6.1%	4,205	4,044	161	4.0%
Beer, Spirits, and Wine	206.3	195.3	11.0	5.6%	2,344	2,265	80	3.5%
Dairy & Drinks	163.7	153.4	10.3	6.7%	1,860	1,779	81	4.6%
Normalized operating profit	55.9	52.6	3.3	6.2%	635	609	26	4.2%
Beer, Spirits, and Wine	57.3	54.5	2.8	5.1%	651	632	19	3.0%
Dairy & Drinks	7.9	5.4	2.5	46.6%	90	62	28	44.2%
Corporate	(9.3)	(7.3)	(2.0)	-	(106)	(85)	(21)	-

Consolidation period : January to December 2018

Currency Rate : ¥ 88.00 (previous year: [Sales revenue] ¥ 86.23, [Normalized OP] ¥ 86.33)

Sales revenue	<p><u>Beer, Spirits, and Wine</u>: Sales revenue will increase from improvements to price/mix although decreased sales volumes are expected due to the introduction of container deposit schemes across Australia and challenging conditions in the mature Australian beer market. Impact of FX rate on consolidation: +¥4.1 bn</p> <p><u>Dairy & Drinks</u>: Sales revenue will increase due to increase in sales volume of Milk Based Beverage, Specialty cheese, and Yoghurt. Impact of FX rate on consolidation: +¥3.3 bn</p>
Normalized OP	<p><u>Beer, Spirits, and Wine</u>: Normalized operating income will increase due to price/mix improvement and cost control in marketing and other value creation in spite of a surge in energy price. Impact of FX rate on consolidation: +¥1.1 bn</p> <p><u>Dairy & Drinks</u>: Normalized operating income will increase due to sales volume increases, price/mix improvement and continued focus on optimizing the performance of the supply chain and manufacturing footprint, despite an expected increase in energy prices and marketing investment. Impact of FX rate on consolidation: +¥0.1 bn</p>

■ Normalized OP margin

%	2018 forecast	2017 actual
Beer, Spirits, and Wine	27.8	27.9
Dairy & Drinks	4.8	3.5

2017 Actual Results of Overseas Integrated Beverages: Myanmar Brewery

	Yen base (bn yen)				Kyat base (bn MMK)			
	2017 actual	2016 actual	YoY change		2017 actual	2016 actual	YoY change	
Sales revenue	25.6	22.6	3.0	13.1%	311	257	54	21.2%
Normalized operating profit	9.9	8.9	0.9	10.4%	120	101	19	18.3%

Consolidation period : January to December 2017 Currency rate: 1,000 kyat = 82.33 yen (previous year: 88.25 yen)

■ Changes in sales volume

(%)	YoY
Beer	+17.1

- Flagship brand *Myanmar Beer* recorded +4% due to successful sales promotion of bottled products, etc.
- *Andaman Gold* increased significantly by 85% against backdrop of market growth in the economy category, shift to canned products, etc.
- By packaging, sales volumes of canned and bottled products increased

Sales Revenue

- Sales revenue increased due to a significant increase in sales volume and upward price revisions implemented in 2016 and 2017
- An increased percentage of the economy category in the product mix generated a negative impact
- Impact of the FX rate on consolidation: ¥(1.8) bn

Normalized OP

- Normalized OP increased because of a significant increase in sales volume and the impact of the upward price revision. This was despite an increase in raw material costs resulting from the impact exchange rate and an increase in selling (advertising) expenses
- Reduction in supply chain costs also contributed to the increased normalized OP
- An increased percentage of the economy category in the product mix generated a negative impact
- Impact of the FX rate on consolidation: ¥(0.7) bn

2018 Plan of Overseas Integrated Beverages: Myanmar Brewery

	Yen base (bn yen)				Kyat base (bn MMK)			
	2018 forecast	2017 actual	YoY change		2018 forecast	2017 actual	YoY change	
Sales revenue	28.5	25.6	2.9	11.3%	343	311	32	10.4%
Normalized operating profit	10.7	9.9	0.8	8.5%	129	120	9	7.7%

Consolidation period : January to December 2018 Currency rate: 1,000 kyat = 83.00 yen (previous year: 82.33 yen)

Sales Revenue	<ul style="list-style-type: none"> • Goal is to increase sales volume at a rate above the expected average market growth which has been hovering in high single digit • The impact of the upward price revision in 2017 contribute to increase in sales revenue • Impact of the FX rate on consolidation: +¥0.2 bn
Normalized OP	<ul style="list-style-type: none"> • Goal is to increase normalized OP by an anticipated increase in gross margin resulting from a sales volume increase and a reduction in procurement costs, as well as to the impact of supply chain cost reductions • Impact of the FX rate on consolidation: +¥0.1 bn

2017 Actual Results of Pharmaceuticals and Bio-chemicals: Kyowa Hakko Kirin

bn yen	2017 actual	2016 actual	YonY change	
Sales revenue	346.7	341.4	5.3	1.5%
Kyowa Hakko Kirin	354.2	348.7	5.5	1.6%
Pharmaceuticals	274.8	269.3	5.5	2.0%
Bio-chemicals	79.4	79.4	(0.1)	(0.1)%
Other and elimination	(7.5)	(7.3)	(0.2)	-
Normalized operating profit	62.2	51.5	10.7	20.9%
Kyowa Hakko Kirin	62.2	51.5	10.7	20.9%
Pharmaceuticals	55.0	45.9	9.1	19.9%
Bio-chemicals	7.2	5.6	1.6	29.4%

Sales Revenue	<p>Pharmaceuticals: Domestic sales decreased because of drug price revisions and the penetration of generic drugs, but overall sales revenue increased due to the significant contribution of higher licensing revenue related to <i>KHK4563</i> in the overseas market</p> <p>Bio-chemicals: Despite an increase in domestic sales resulting from strong sales in the pharmaceutical and health food raw materials and mail-order business etc., overall sales revenue decreased slightly due to lower overseas sales, etc.</p>
Normalized OP	<p>Pharmaceuticals: Normalized OP increased due to an increase in licensing revenue in the overseas market as well as a decrease in R&D expenses (i.e. steady progress made in development of products that are in the later stages of development, adjustment of the cut-off period from the previous year, etc.)</p> <p>Bio-chemicals: Normalized OP increased due to a higher percentage of highly profitable products compared to the previous year, etc.</p>

2018 Plan of Pharmaceuticals and Bio-chemicals: Kyowa Hakko Kirin

bn yen	2018 forecast	2017 actual	YonY change	
Sales revenue	327.0	346.7	(19.7)	(5.7)%
Kyowa Hakko Kirin	335.0	354.2	(19.2)	(5.4)%
Pharmaceuticals	261.0	274.8	(13.8)	(5.0)%
Bio-chemicals	74.0	79.4	(5.4)	(6.8)%
Other and elimination	(8.0)	(7.5)	(0.5)	-
Normalized operating profit	55.0	62.2	(7.2)	(11.6)%
Kyowa Hakko Kirin	55.0	62.2	(7.2)	(11.6)%
Pharmaceuticals	47.0	55.0	(8.0)	(14.6)%
Bio-chemicals	8.0	7.2	0.8	11.3%

Sales Revenue	<p>Pharmaceuticals: Sales revenue will decrease despite the expected revenue increase in the overseas market because of the impact of drug price revisions and stock transfer of a consolidated subsidiary in the diagnostic drug business, etc. in the domestic market</p> <p>Bio-chemicals: Sales revenue will decrease due to the sale of a business (plant growth adjustment agent) and a decrease in sales of pharmaceutical raw materials in the overseas market</p>
Normalized OP	<p>Pharmaceuticals: Normalized OP will decrease despite an expected increase in the overseas gross margin because of the impact of drug price revisions in the domestic market and increase in launch costs of pharmaceuticals in the overseas market</p> <p>Bio-chemicals: Normalized OP will increase due to the expected sales increase in mail-order business, improvement in the cost of pharmaceutical raw materials in the overseas market, etc.</p>

(Reference) Quarterly performance of San Miguel Brewery (an affiliate consolidated under the equity method)

■ San Miguel Brewery local-based consolidated results (From October 2016 to September 2017)

(million pesos)	Oct-Dec 2016		Jan-Mar 2017		Apr-Jun 2017		Jul-Sep 2017		2017 Total	
	actual	change	actual	change	actual	change	actual	change	actual	change
Sales	27,862	18%	25,364	9%	27,696	14%	27,596	26%	108,518	16%
Operating Income	8,474	23%	6,677	10%	7,363	12%	7,368	20%	29,882	16%
Operating Income Ratio	30.4%		26.3%		26.6%		26.7%		27.5%	

Source : San Miguel Brewery Inc. Financial Highlights

■ San Miguel Brewery dividend data (2016 Oct – 2017 Sep)

(million pesos)	Oct-Dec 2016	Jan-Mar 2017	Apr-Jun 2017	Jul-Sep 2017	2017 Total
Cash Dividend	2,765	2,765	2,765	2,765	11,060
Cash Dividend Per Share	0.18	0.18	0.18	0.18	0.72

Source : San Miguel Brewery Inc. Financial Highlights

■ Consolidated results under the equity method (consolidation period: Oct 2016-Sep 2017)

(bn yen)	2017 4Q	2016 4Q	YoY %
Net income (SMB)	433	384	13%
Consolidated net income (included in the consolidated results)	210	187	13%

Currency rate: 1 peso = ¥2.24 (previous year: ¥2.38)

Balance Sheet Before and After IFRS Adoption on Jan 1, 2016

(bn yen)	J-GAAP end of 2015	IFRS beginning of 2016	Variance	
Total assets	2,443.8	2,490.3	46.5	
Property, plant and equipment	711.8	633.1	(78.7)	Land: Fair market value as of the date of transfer was used as deemed cost (61.7) bn yen, etc.
Goodwill	269.2	272.0	2.8	Lion and Myanmar Brewery: Impact of changing the fiscal year end, etc.
Intangible assets	189.3	206.7	17.4	Reversal of amortization (brands, etc.) +7.1 bn yen Kyowa Hakko Kirin: Recognizing in-licensing as intangible assets +28.4 bn yen Recognition of impairment losses for intangible assets (21.9) bn yen
Other non-current assets	491.5	589.8	98.2	Reversal of amortization (brands, etc.) accounted for using the equity method +13.8 bn yen Records on both assets and liabilities in IFRS, etc.
Current assets	781.9	788.7	6.8	
Total liabilities	1,505.7	1,590.1	84.4	
Bonds and borrowings	757.1	791.8	34.7	Records on both assets and liabilities in IFRS, etc.
Other	748.6	798.2	49.7	Kyowa Hakko Kirin: Deferment of out-licensing revenue +17.1 bn yen Records on both assets and liabilities in IFRS, etc.
Total equity	938.1	900.2	(37.9)	
Equity attributable to owners of the parent	663.8	645.4	(18.5)	Items mentioned above, and resetting foreign currency translation adjustment to zero and also its transfer to retained earnings (Reclassification inside equity, including (75.8) bn yen for Brasil Kirin)
Non-controlling interests	274.2	254.9	(19.4)	

KIRIN

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